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DEPARTMENT OF STATE

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Memorandum of Conversation

DATE: September 11, 1958

SUBJECT: Meeting of Turkish Minister of Finance, September 11, 1958,
with Under Secretary Dillon

CIA

Turkish

PARTICIPANTS: H. E., Hasan Polatkan, Turkish Minister of Finance
Ambassador S. H. Urguplu
Mr. Munir Mostar, Inspector, Ministry of Finance
Mr. Hasan Isik, Asst. Secretary-General, Ministry of Foreign Affairs
Mr. Memduh Aytur, Director-General, Turkish Treasury
Mr. Ziya Muezzinoglu, Counselor to the Turkish Treasury
~~CONFIDENTIAL~~ Mr. Fikri Diker, Asst. Director-General, Central Bank of Turkey
Mr. N. A. Ucuncu, Chief of Turkish Economic Delegation, Washington

American

Mr. Douglas Dillon, Under Secretary of State for Economic Affairs
Mr. James Smith, Director, ICA
Mr. Sam Waugh, President, Export-Import Bank

Mr. Hart Perry, Deputy Managing Director, DLF
Mr. Frank Southard, Treasury Department
Mr. Owen T. Jones, Director, GTI
Mr. John Leddy, W
Mr. John Bell, O/NESA, ICA
Mr. John Blowers, Export-Import Bank
Mr. William Welk, Export-Import Bank
Mr. Robert Bee, Treasury Attache, American Embassy, Ankara
Mr. Howard J. Ashford, Jr., GTI

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The Turkish Minister of Finance, Mr. Hasan Polatkan, met with the Under Secretary of State for Economic Affairs, Mr. Douglas Dillon, at 10:30 a.m. on September 11, 1958. There follows below a resume of remarks by both Turkish and American participants following the presentation of a long and detailed statement by the Finance Minister, as read by Mr. Mostar. (A finished copy of that statement is to be supplied by the Turkish Embassy).

The Minister said he wished to enlarge upon his formal statement and stressed the great need for success in his negotiations in Washington. He pointed out that the premium now applied to the external value of the lira amounted to 221 percent and as such constituted a major operation that, if placed in jeopardy, could create serious difficulties for his government. He cited as his most immediate needs the following: (1) a decision within the current month of September on the release of

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the major portion of the \$75 million of Defense Support funds from ICA for the Central Bank; (2) consummation of bilateral credits originally promised by Britain and West Germany for September 1st and finalization of the OEEC credit arrangement; (3) release of TL 272 million PL 480 funds, on a grant basis, for the continuance of viable state enterprises which could make an early contribution to the productivity of Turkey; (4) early action following the recent Export-Import - DLF surveys in Turkey on certain projects and a new Export-Import - DLF Mission to consider other possible projects; (5) consideration of additional aid, beyond the \$10 million of DLF funds, for the Industrial Development Bank; (6) consolidation of commercial arrears with private American firms and United States Government assistance in negotiations with these firms; (7) assurance of levels of aid in future years sufficient to ensure maintenance of essential import levels of an order similar to that agreed upon this year; (8) United States Government assistance in modifying the loan arrangements with American banks pledging gold as collateral.

Mr. Dillon responded that the problem of assuring immediate resources in order to put the new Turkish import program into effect seemed to divide itself into two parts - U.S. and European responsibilities thereto. As for the American side, the Under Secretary pointed out that \$25 million had already been made available as agreed upon and urgent attention is being given to the matter of scheduling the \$75 million. While recognizing the need for early action in this regard and noting the seasonal problem, Mr. Dillon cautioned that ICA funds should be utilized in a manner to avert shortage of funds as a result of some contingent needs arising later in the year. Mr. Dillon then suggested that a meeting be held at ICA that afternoon to discuss further the technical aspects of this problem.

As for the OEEC credits, Mr. Dillon told the Minister that the American representative in Paris is continuing to press for rapid action. He said the latest news received was through a telephone call the morning of September 11 which indicated half of the total OEEC funds agreed to would be released by September 22 or 23, 1958. He assured the Minister that our representative would continue to follow this matter, and that as necessary our missions in London and Bonn would also interest themselves in the bilateral credits expected from British and West German sources.

Export-Import and DLF credits were then discussed. Mr. Waugh stated that the Export-Import examination of information developed during the recent project survey was about complete and favorable action might be expected. As for the DLF, Mr. Dillon said that the loan committee would be meeting next week to consider the survey report on the part of that body. He noted, as well, that the agreement with respect to the \$10 million for the Industrial Development Bank would be ready for signing on Friday, September 12, 1958. Mr. Dillon expressed the general hope that some determination could be made on the use of Export-Import Bank and DLF funds for use on uncompleted portions of projects already under way in Turkey.

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Referring to the Minister's request for aid in future years, the Under Secretary pointed out that U.S. agencies, including the DLF, were dependent upon annual Congressional appropriations. To the extent funds were available he was sure Turkey would get its full share and further project applications could be considered.

On the broad problem of investments and investment policy generally, Mr. Dillon informed the Minister that the United States was most desirous of seeing a renewal of relations on the part of Turkey with the IBRD and noted with approval the fact that the Minister planned consultations with that organization during his present trip.

In regard to the deposits of TL 272 million, accrued on the United States account through sales of agricultural surpluses, Mr. Dillon said the United States Government is willing to explore a partial release of these funds on a grant basis. He hoped that a decision on this matter could be reached before the Minister departs on Saturday, September 13, 1958.

Mr. Smith of ICA asked what is the nature of imports Turkey plans on obtaining, what would be the schedule and manner of payment. Mr. Polatkan replied as to the need for the entire \$75 million as soon as possible in order to make cash payments for imports needed now (spare parts, raw materials and capital goods) in order to get the Turkish economy again in motion. In referring to his acting portfolio as Minister of Industry, the Minister stressed the need for assistance in setting up a real productivity training program in Turkey. The Minister continued by referring again to the IBRD and said Turkey would, during his recent visit, extend an invitation to Mr. Black, President of the IBRD, to visit Turkey. He referred, too, to the government plans for sale of state enterprises to private enterprise but added this matter would take time. He urged a meeting with his technical advisors to study the matter of release of part of the 272 million lira accrued from the sale of agricultural surpluses by the United States. Mr. Polatkan noted that it had taken nine or ten months to get the IDB negotiation straightened out with the DLF and asked if there could be a more rapid review and decision regarding other projects.

Mr. Isik touched on the matter of commercial arrears with American firms and pleaded the case that American firms might well set an example for European creditors to follow in negotiations to be conducted there by a separate Turkish team. Mr. Dillon replied that he felt American firms' debts should be accorded equal treatment with those of other Turkish creditors, but that the United States doesn't want preferential treatment and that it would be willing to point out to others the need for the complete program to be a success if the plan is to succeed at all. He said there was a question of timing and suggested that it was imperative to get the import program into operation first and then to treat with the matter of debt consolidation.

Mr. Southard referred to the pledged gold issue and suggested as one practical step that the Minister have informal talks with one of the major holders of pledged gold, possibly with the Chase bank. He doubted, however, that the banks would take favorable action at this time. When the Minister asked for any

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assistance in dealing with the banks, Mr. Southard said that, as a matter of policy, we did not intervene with banks on the terms of their lending operations but would, of course, be willing to use its good offices in obtaining consideration of the Turkish request by two banks.

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9/18/58

(Cleared by W: Mr. Laddy as charged 9/17/58).

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DEPARTMENT OF STATE

Memorandum of Conversation

DATE: September 11, 1958

SUBJECT: Call of the Turkish Minister of Finance on Mr. Rountree, September 11, 1958

PARTICIPANTS: H. E., Hasan Polatkan, Turkish Minister of Finance
Ambassador Saut H. Urguplu, Turkish Ambassador
Mr. Munir Mostar, Inspector, Minister of Finance
Mr. William M. Rountree, Assistant Secretary of State
Mr. Donald Kennedy, Deputy Asst., Secretary of State
Mr. Owen T. Jones, Director, GTI
Mr. Howard J. Ashford, Jr., GTI

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After an exchange of amenities, Mr. Rountree told the Minister that he had been most gratified by the steps that Turkey has resolved to take in instituting its new stabilization program. He said that he realized that such a program required courage, that there would be many obstacles before its successful conclusion but that he was assured in his own mind as to the correctness of such a course.

The Minister thanked Mr. Rountree for his measure of confidence and said that the Turkish Government is determined to go through with the program. He reviewed the priorities of needs in order to put the program into full effect, stressing the imperative nature of receiving sufficient funds, both from U.S. and European sources for the program to function properly. The Minister put the Turkish needs in the context of the problem of raising Turkey's standard of living. He observed that Turkey had been criticized for attempting to do too much in the past. U.S. aid would, however, not be available forever and it was the earnest desire of his Government to build up its economy so that it can meet its own problems out of its own resources.

Mr. Rountree said that he had had opportunity to learn of the meeting Mr. Polatkan had had with Mr. Dillon and his associates earlier in the day. He queried the Minister on the arrears problem and the Minister reviewed the Turkish position that consideration by American creditors in settling outstanding arrears of approximately \$78 million would be of inestimable help. Mr. Rountree said that it was his understanding that consideration would be given this matter. Mr. Polatkan stressed that he was in need of decisions on the extension of U.S. aid and that he hoped to have some answers to matters raised with Mr. Dillon by the time he departed Washington.

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As the Minister took his leave, Mr. Rountree again expressed his confidence that the Minister and his Government would see the stabilization program through to successful conclusion.

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DEPARTMENT OF STATE

Memorandum of Conversation (By Telephone)

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DATE: 18 September 1958

SUBJECT: Industrial Development Bank, Lazard-Chase Proposal C/A

PARTICIPANTS: Mr. Russell Dorr, Chase International
Mr. Jay R. Nussbaum, GTI

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Mr. Dorr inquired about the status of the Iranian request for a DLF loan to support the Industrial Development Bank project. Mr. Nussbaum informed him that the loan request had been turned down and could not be considered further unless the Iranians put it in a higher priority position than other requests for U.S. assistance.

Mr. Nussbaum suggested that, in view of the mild Iranian reaction to this refusal, Chase International might request a reply to its latest proposal. Mr. Dorr stated that his company might communicate with the office of the Prime Minister along this line. He further stated that

Mr. Freyre, President of Chase International, would be in New Delhi for the World Bank meeting. The possibility was discussed that Mr. Freyre might go to Tehran if this would not compromise his bargaining position by making his group seem over-eager and if there appeared to be real prospect that the Iranians might approve the project.

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